

Co-founder tells other side of T2 story

Exclusive Two women each put in \$50,000 to found T2. One sells to Unilever for millions of dollars, the other reluctantly walked away. This is her story.

Caitlin Fitzsimmons

It is one thing for an entrepreneur to feel forced out of the business they love. It is quite another for them to watch their former business partner reap tens of millions when a multinational company buys the business a decade later.

Jan O'Connor, the co-founder of premium tea chain T2, knows exactly how this feels. She poured her life savings, time and creative energy into T2 for five years but reluctantly left the business when her relationship with co-founder Maryanne Shearer soured.

"It was devastating – it felt a bit like a divorce and not having access to the kids," O'Connor says.

This is a story rarely told: culturally we celebrate the success of entrepreneurs, but ignore the co-founders left behind.

O'Connor is speaking now because there is greater public interest in T2 since Unilever bought the business last year and she wants to ensure she is not left out of the corporate history. It ranked when the Unilever press release described Shearer as "the founder" and omitted O'Connor. Since then AFR Weekend ran an interview with Shearer earlier this year promoting "the real T2 story", which did mention O'Connor as a co-founder. Meanwhile, Penguin is rumoured to have books on T2 in the works, and O'Connor says she has not been contacted.

O'Connor is also hopeful that sharing her experience will help other entrepreneurs navigating relationships with co-founders to avoid making some of the same mistakes.

That this story is being told at all is testament to T2's success at setting itself apart in a crowded market. Flavours like "creme brulee" and "pumping pomegranate" in tins with brightly coloured labels have become favourites under Christmas trees and in upmarket restaurants and boardrooms. In T2's stores dark wooden shelving and wallpaper made of Chinese newspapers evoke an old-world oriental feel. It's a corporate look inspired by the phrase "all the tea in China", and one deeply familiar to O'Connor.

It all started back in the 1990s when O'Connor was keen to leave her job in retail and start her own business. She met Shearer through work and the pair agreed to go into business together. They each put in \$50,000 to start the company in 1996 and were equal co-founders. The initial plan was homewares, but they switched to tea while unpacking samples from a buying trip to Europe. Press reports from the time credit O'Connor, a lifelong tea drinker whose grandma was the ANZ tea lady for 35 years, with the original tea concept, the striking store fit-out and packaging designs.

In the early years, O'Connor says she worked 80-hour weeks to get T2 going, including creating and running the wholesale business. O'Connor says she worked more hours than Shearer but the partners had a verbal agreement about sweat equity. Shearer also took two periods of maternity leave with no change in her salary of \$60,000 a year. The plan was for O'Connor to later take time off to do an MBA – but that would never happen.

After the first store proved a success, T2 needed money to grow and this, O'Connor says, is where the trouble really began.

Shearer's life partner, **Bruce Crome**, was 20 years older than Shearer and had already acquired serious wealth from listing an engineering firm. The T2 founders



Co-founder of T2, Jan O'Connor sold out of the business 14 years ago under unfortunate circumstances. PHOTO: NIC WALKER



Jan O'Connor and Maryanne Shearer in their Fitzroy store, 1998. PHOTO: CATHRYN TREMAIN

took a business loan from Crome, who in February 1998 created a floating charge of \$79,835.78 over the entire business as security. Documents seen by AFR Weekend state the interest rate as 6 per cent a year.

O'Connor maintains she wanted to go to the bank to meet any finance needs, but Shearer talked her into borrowing from Crome instead. O'Connor did not get legal advice. What she did not count on was that she would need Shearer's agreement to repay the loan if Crome called in the debt. The decision would prove to be her downfall. Shearer has previously described the co-founders as lacking financial acumen and Crome as "T2's guardian angel". O'Connor sees Crome's role very differently.

"He was her guardian angel," O'Connor says. "For me he was like a third unofficial partner, the devil in disguise."

Repayments started in February 2001. In July the same year, Crome called in the loan. A letter from Crome's solicitor in September 2001 put the accumulated debt at \$130,806.64, with interest of 7.5 per cent a year rather than the 6 per

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Jan O'Connor, T2 co-founder

cent agreed. When O'Connor ran the numbers she saw that T2 did not have the funds for full and immediate repayment, so she proposed that the two co-founders put in half the money each.

The reply from Shearer's solicitor states that Shearer "is not in a position to contribute to the repayment of the loan from Bruce Crome".

By this stage, the relationship between O'Connor and Shearer had broken down. O'Connor says one reason might be her proposal to install an independent managing director to help take the business to the next level.

O'Connor says that when Shearer

returned from her second maternity leave she agreed the business needed an MD but wanted to do the job herself, with O'Connor one of six direct reports.

"I found that a bit confronting," O'Connor admits.

O'Connor does not want to rake over the details of the interpersonal dispute, but relations between the co-founders became fraught. Legal letters from the time show some hotly contested claims and counter-claims.

"It got really nasty," O'Connor says. "We had a happy working relationship for five years but at some point, she started thinking of it as her business."

O'Connor found two potential business partners and made an offer valuing the business at two to four times earnings before interest and tax. O'Connor says this amounted to an offer of \$360,000 to \$380,000 to buy Shearer's half and repay Crome.

This was rejected too. O'Connor considered taking legal action but knew that this would be costly, lengthy and emotionally taxing. Crome was also threatening to send the business to liquidation. If he was calling her bluff, it worked. O'Connor sold her half of the business to Crome for \$100,000, plus a repayment of \$50,000 for a loan she had made to the business.

"It was so difficult and fractured at that point that I was at a loss at what to do and so was the legal team behind me," she says. "It got down to the last day and they were like you're either accepting the deal or it's going into liquidation."

Crome refused to comment for this story but in letters to O'Connor from October 2001, he said he was concerned about the ability of T2 to repay his loan, described the company's financial situation as "deteriorating" and suggested it was in need of an "urgent cash injection from someone to enable it to trade through until Christmas". He sought to

appoint an investigating accountant but O'Connor refused. He describes himself as "reluctantly agreeing" to the deal to buy out O'Connor.

O'Connor rejects the idea that T2 was in financial crisis at the time she left, insisting that the co-founders made "some very savvy decisions". She agrees money was tight, but says the company was on a growth trajectory, the overall debt levels were low and international suitors had shown interest in a joint venture. The company was making a small operating loss but O'Connor says this was a deliberate strategy to order extra stock before the end of the financial year.

All these years later, O'Connor realises she is not entitled to a share of the Unilever money. The purchase price was undisclosed but O'Connor has heard from sources close to the deal it was about \$80 million.

But she does want credit for her contribution, particularly the design elements such as the distinctive T2 packaging and store fitouts. That recognition was withheld for years: media coverage from the 1990s credits O'Connor, stories from after 2001 credit Shearer for the same ideas and designs. Until recently, O'Connor was usually omitted from the story altogether and Shearer still describes herself as "founder" of T2 on LinkedIn.

For O'Connor, the recognition is important since she still works in the design space as managing partner at award-winning architecture practice EnviroStudio in Sydney's Surry Hills.

"For many years I was totally dismissed and ignored as the co-founder of T2," she says. "I work in the area of creativity and the origin of ideas is everything. I don't want the revisionist version of history to become history."

There is no doubt that Shearer and Crome's contribution to the success of T2 is immense. When O'Connor left the business, T2 had a couple of million dollars in revenue from two stores and a wholesale business, and a small operating loss.

The business Unilever bought in 2013 was about 20 times bigger, with 40 stores and \$57 million in turnover and was also in a phase of double-digit growth. The profit is unknown but T2 imported, packaged and branded its own tea, giving it better margins than most retail businesses. Opportunities for vertical integration will be even greater under Unilever, which is the world's biggest tea company with brands such as Lipton and Bushells.

"I can take a small amount of pride in [the success] because not a lot has changed – the look is still fairly much the same as when I first developed the ideas, but it's been developed and become more sophisticated," O'Connor says.

"Maryanne's been very successful and I wish her all the best – I'd be happy with an \$80 million buyout too."

AFR Weekend has verified key events such as the details of Crome's floating charge and the changes in shareholdings and directorships through documents from the Australian Securities and Investments Commission. O'Connor has also shared her own records, including financial accounts, legal letters, press clippings and sketch books with original designs.

Unilever, Shearer and Crome were given an opportunity to comment and also sent a list of specific questions, which they declined to answer. Shearer sent a brief written statement via her public relations agency.

"T2 was founded in 1996 and from very small beginnings has grown in recent years to be a leading tea retailer, with more than 50 stores in Australia, New Zealand and the UK," Shearer says.

"Jan O'Connor and I started the business together 18 years ago but took the decision to part ways in 2001. While we haven't worked together for a long time I've always wished her every success, and continue to do so."

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